



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	05/25/2006	Bill No:	SB 1208
Tax:	Cigarette and Tobacco Products	Author:	Ortiz
Related Bills:			

This analysis will only address the bill's provisions that impact the Board.

BILL SUMMARY

Among other things, this bill would:

- With certain exceptions, prohibit shipping or transporting cigarettes and tobacco products, except for cigars and pipe tobacco, to persons in California; and
- Repeal the requirement that every retail sale of cigarettes in California be a vendor-assisted, face-to-face sale, unless specified conditions are met.

Summary of Amendments

Since the previous analysis, this bill was amended to provide that the cigarettes and tobacco products shipping or transporting prohibition does not apply to cigars and pipe tobacco.

ANALYSIS

Current Law

CIGARETTE AND TOBACCO PRODUCTS TAX LAW

Under current law, Section 30101 of the Cigarette and Tobacco Products Tax Law imposes an excise tax of 6 mills (or 12 cents per package of 20) on each cigarette distributed. In addition, Section 30123 and 30131.2 impose a surtax of 12 ½ mills (25 cents per package of 20) and 25 mills (50 cents per package of 20), respectively, on each cigarette distributed. The current total tax on cigarettes is 43 ½ mills per cigarette (87 cents per package of 20).

Sections 30123 and 30131.2 also impose a surcharge on tobacco products at a rate to be annually determined by the Board. The tobacco products tax rate is equivalent to the combined rate of tax on cigarettes. The surcharge rate for fiscal year 2005-06 is 46.76 percent.

Section 30101.7 provides, in part, that no person may engage in a retail sale of cigarettes in California unless the sale is a vendor-assisted, face-to-face sale.

A “face-to-face sale” is defined to mean a sale in which the purchaser is in the physical presence of the seller or the seller’s employee or agent at the time of the sale. A face-to-face sale does not include any transaction conducted by mail order, the Internet, telephone, or any other anonymous transaction method in which the buyer is not in the seller’s physical presence. However, this does not prohibit any lawful sale of a tobacco product that occurs by means of a vending machine.

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Persons may engage in a non-face-to-face sale of cigarettes to a person in California provided that the seller complies with both of the following conditions:

The seller has fully complied with all of the requirements of Chapter 10A (commencing with Section 375) of Title 15 of the United States Code, otherwise known as the Jenkins Act.

The seller has fully complied with either of the following requirements:

- All applicable California taxes on the cigarettes have been paid.
- The seller includes on the outside of the shipping container for any cigarettes shipped to a resident in California from any source in the United States an externally visible and easily legible notice located on the same side of the shipping container as the address to which the package is delivered stating as follows:

"IF THESE CIGARETTES HAVE BEEN SHIPPED TO YOU FROM A SELLER LOCATED OUTSIDE OF THE STATE IN WHICH YOU RESIDE, THE SELLER HAS REPORTED PURSUANT TO FEDERAL LAW THE SALE OF THESE CIGARETTES TO YOUR STATE TAX COLLECTION AGENCY, INCLUDING YOUR NAME AND ADDRESS. YOU ARE LEGALLY RESPONSIBLE FOR ALL APPLICABLE UNPAID STATE TAXES ON THESE CIGARETTES."

The Board is required to provide information relative to a seller's failure or attempt to comply with the Jenkins Act to the Attorney General. The Attorney General is required to provide an annual report to the Legislature regarding all actions taken to comply with, and enforce, the Jenkins Act.

The Attorney General or a city attorney, county counsel, or district attorney may bring a civil action to enforce the provisions of Section 30101.7 against any person that violates that section. In addition to any other remedies provided by law, the court is required to assess a civil penalty in accordance with the following schedule:

- A civil penalty of not less than one thousand dollars (\$1,000) and not more than two thousand dollars (\$2,000) for the first violation.
- A civil penalty of not less than two thousand five hundred dollars (\$2,500) and not more than three thousand five hundred dollars (\$3,500) for the second violation within a five-year period.
- A civil penalty of not less than four thousand dollars (\$4,000) and not more than five thousand dollars (\$5,000) for the third violation within a five-year period.
- A civil penalty of not less than five thousand five hundred dollars (\$5,500) and not more than six thousand five hundred dollars (\$6,500) for a fourth violation within a five-year period.
- A civil penalty of ten thousand dollars (\$10,000) for a fifth or subsequent violation within a five-year period.

SALES AND USE TAX LAW

Current law imposes a sales or use tax on the sale or purchase of tangible personal property in this state (including cigarettes and tobacco products). When a person sells cigarettes or tobacco products at retail in this state, the sales tax applies. The seller is responsible for this tax and must pay it to the state. When the sales tax does not apply, the use tax does. For example, when a person buys cigarettes from a point outside this state for the use or consumption in this state, the use tax is the applicable tax. If the out-of-state seller has nexus within the state, the seller is required to collect the use tax from the purchaser at the time of sale. If the seller does not collect the use tax, or if the seller does not have nexus in this state, the purchaser is required to pay the use tax directly to the Board. A purchaser will not be liable for the payment of use tax if receipts are obtained from a seller holding a seller's permit or a Certificate of Registration-Use Tax.

CIGARETTE AND TOBACCO PRODUCTS LICENSING ACT OF 2003

Division 8.6 of the Business and Professions Code (BPC) established the Cigarette and Tobacco Products Licensing Act of 2003 (Act). The Act established a statewide licensure program for the sales of cigarettes and tobacco products to address the unlawful distribution and untaxed sales of cigarettes and tobacco products.

In part, the Act requires a retailer to have in place and maintain a license to engage in the sale of cigarettes or tobacco products (BPC §§ 22972 – 22974.8). Among other responsibilities, a retailer must: conspicuously display its license at each retail location, keep complete and legible purchase invoices for cigarettes and tobacco products for four years, maintain cigarette and tobacco products invoices at each licensed location for at least one year after the date of purchase, and allow Board staff or law enforcement officers to review cigarette and tobacco products purchase invoices upon request.

The Act also imposes specified prohibitions and penalties in BPC Sections 22980.1 through 22982. Among other prohibitions, the Act provides that a person engaging in the business of selling cigarettes or tobacco products in this state without a license or after a license is suspended or revoked is guilty of a misdemeanor punishable by a fine not to exceed five thousand dollars (\$5,000), or imprisonment not exceeding one year in a county jail, or both. Any violation of the Act by any person, except as otherwise provided, is a misdemeanor. Each offense is punished by a fine not to exceed five thousand dollars (\$5,000), or imprisonment not exceeding one year in a county jail, or both.

FEDERAL JENKINS ACT

Chapter 10A (commencing with Section 375) of Title 15 of the United States Code (otherwise known as the Jenkins Act) provides that any person that sells or transfers cigarettes for profit in interstate commerce, whereby such cigarettes are shipped into a state taxing the sale or use of cigarettes, to other than a distributor licensed by or located in such State, to file by the 10th of each calendar month a memorandum or a copy of the invoice for each and every shipment of cigarettes made during the previous calendar month in that state. This information is required to show the name and address of the person to whom the shipment was made, the brand, and quantity of the shipment. Any person who violates these provisions shall be guilty of a misdemeanor

and shall be subject to a fine of not more than one thousand dollars (\$1,000), imprisoned not more than six months, or both.

STOP TOBACCO ACCESS TO KIDS ENFORCEMENT (STAKE) ACT¹

BPC SECTION 22963

Under existing law, Section 22963 prohibits the distribution or sale of tobacco products directly or indirectly to any person under the age of 18 years through the United States Postal Service or through any other public or private postal or package delivery service at locations, including, but not limited to, public mailboxes and mailbox stores.

Any person selling or distributing tobacco products directly to a consumer in the state through the United States Postal Service or by any other public or private postal or package delivery service, including orders placed by mail, telephone, facsimile transmission, or the Internet, must verify that the purchaser is 18 years of age or older. In addition, the seller or distributor is required to impose a two-carton minimum on each order of cigarettes, accept only personal check of the purchaser or the purchaser's credit card payments as payment for the purchase of any tobacco product, make a telephone call after 5 p.m. to the purchaser confirming the order prior to shipping the tobacco products, and deliver the tobacco product to the purchaser's verified billing address on the check or credit card used for payment.

A district attorney, city attorney, or the Attorney General is authorized to assess specified civil penalties against any person, firm, corporation, or other entity that distributes or sells tobacco products to a person under the age of 18 or does not comply with the requirements to sell or distribute tobacco products directly to a consumer in the state, as described.

Proposed Law

This bill would repeal Section 30101.7 of the Revenue and Taxation Code (RTC) which prohibits a retail sale of cigarettes in California that is not a vendor-assisted, face-to-face sale, except under specified conditions.

This bill would also repeal and add BPC Section 22963 to make it unlawful for any person engaged in the business of selling or distributing cigarettes or tobacco products to ship or cause to be shipped any cigarettes or tobacco products to any person in this state who is not any of the following (hereafter "described person"):

- Licensed pursuant to Division 8.6 (commencing with Section 22970) of the BPC
- An export warehouse proprietor pursuant to Chapter 52 of the Internal Revenue Code (26 U.S.C. Sec. 5701 et seq.).
- An operator of a customs bonded warehouse pursuant to Section 1311 or 1555 of Title 19 of the United States Code.
- A person who is an officer, employee, or agent of the federal government, or of this state or of a department, agency, instrumentality, or political subdivision of the federal government or this state, when the person is acting in accordance with his or her official duties.

This bill would also make it unlawful for any common or contract carrier to knowingly transport cigarettes or tobacco products to any person in this state reasonably believed

¹ Division 8.5 (commencing with Section 22950) of the Business and Professions Code

by the carrier to be other than a described person. It would be presumed that the common or contract carrier knew that the person was not a described person if cigarettes or tobacco products are transported to a home or residence.

It would also be unlawful for any other person to knowingly, or with reason to know, to transport cigarettes or tobacco products to any person in this state, other than a described person.

This bill would also impose a labeling requirement when a person engaged in the business of selling or distributing cigarettes or tobacco products ships or causes to be shipped any cigarettes or tobacco products to any person in this state, other than in the cigarette or tobacco product manufacturer's original container or wrapping. Such a container or wrapping would have to be plainly or visibly marked with the term "cigarettes" or "tobacco products."

For purposes of Section 22963, "tobacco products" would not include cigars or pipe tobacco.

Enforcement

This bill would authorize the Board or a law enforcement agency to seize and take possession of cigarettes or tobacco products upon discovery of any cigarettes or tobacco products that have been, or are being, shipped or transported in violation of the shipping and transporting prohibition or labeling requirement. Any cigarettes or tobacco products seized by a law enforcement agency would be required to be delivered to the Board, or its designee, within seven days, unless the cigarettes or tobacco products will be destroyed by that law enforcement agency, or unless the cigarettes or tobacco products are otherwise required to be used as evidence in an administrative, criminal, or civil proceeding, or as part of an ongoing law enforcement operation.

Any cigarettes or tobacco products seized by the Board or delivered to the Board by a law enforcement agency would be deemed forfeited and the Board would be required to comply with seizure and forfeiture procedures as set forth in the Cigarette and Tobacco Products Tax Law.²

Penalties

A violation of the shipping and transporting prohibition or labeling requirement would be a misdemeanor and punishable by a fine of not less than five thousand dollars (\$5,000) but not more than fifty thousand dollars (\$50,000), or by imprisonment not to exceed one year in a county jail, or both the fine and imprisonment.

In addition to the criminal penalty, the Attorney General, district attorney, or city attorney would be authorized to bring a civil action against any person, firm, corporation, or other entity that violates this section. If a court determines that there has been a violation, the court would be required to assess civil penalties not to exceed five thousand dollars (\$5,000) per violation, plus the costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and court costs.

² Chapter 7.5 (commencing with Section 30435) of Part 13 of Division 2 of the RTC.

In General

Similar to the use tax, the collection of the cigarette and tobacco products excise tax relies heavily on the voluntary compliance of purchasers. However, due to the general misconception that purchases from outside this state are "tax free" and the insufficient resources to audit all purchasers, the voluntary compliance rate has been very low.

With respect to the number of cartons of cigarettes that are not being reported, the Board recently estimated cigarette excise tax revenues for out-of-state cigarette purchases to be \$53.9 million per year. However, that figure includes out-of-state purchases from all untaxed out-of-state sources, including the Internet, mail order, and cross border sales. The Jenkins Act only applies to Internet and mail order sales, which staff estimates to be 40 percent of the total amount of out-of-state sales. Therefore, it is estimated that approximately \$21.5 million ($\$53,900,000 \times .40 = \21.5) in cigarette tax or 2,478,161 ($\$21,560,000 / \$8.70 \text{ excise tax per carton} = 2,478,161$) cartons of cigarettes, are not being reported to the Board on an annual basis.³

In May 1999, the Board began a program to promote Jenkins Act compliance by out-of-state cigarette sellers. At the inception of the program, out-of-state sellers were reporting as many as 80,000 cartons in a single quarter. However, the number of cartons of cigarettes reported pursuant to the federal Jenkins Act significantly decreased beginning in 2001 due to the lack of enforcement at the federal level.

In addition to the Board's efforts under the program to promote the federal Jenkins Act, the Board is pursuing Jenkins Act information received from five sellers as a result of litigation between the California Attorney General's Office and several out-of-state Internet sellers.

The Board has also subpoenaed major common carriers for their deliveries of cigarettes or tobacco products to individual consumers in California. These subpoenas have resulted in the identification of 65,000 unique addresses that have received over 250,000 packages of cigarettes and tobacco products from out-of-state vendors not licensed to do business in California and not reporting the excise tax.

Background

Senate Bill (SB) 1766 (Ch. 686, Stats. 2002, Ortiz) added Section 30101.7 to the Cigarette and Tobacco Products Tax Law to require, in part, that every retail sale of cigarettes in California be a vendor-assisted, face-to-face sale, unless all applicable taxes due on the sale are paid or the seller includes a prominent notice on the package indicating that the purchaser is responsible for any applicable California taxes on the cigarettes.

On April 1, 2003, Attorney General Bill Lockyer filed lawsuits to enforce, in part, the provisions of SB 1766. Specifically, the lawsuits were filed against five out-of-state tobacco retailers for selling cigarettes to minors via the Internet, failing to report tobacco sales to California tax authorities, and depriving the state of excise taxes. The complaints allege that the defendants have violated California laws that govern payment of excise taxes on Internet cigarette sales, and federal statutes that require out-of-state sellers to report such sales to California tax agencies. Additionally, the lawsuits allege the defendants have wrongfully denied the state revenue. The defendants' failure to

³ The number was not adjusted for cartons of cigarettes reported to the Board since that volume is deemed to be relatively insignificant to the estimated \$53.9 million per year in out-of-state purchases of cigarettes.

notify consumers of their obligation to pay taxes constitutes deceptive advertising, according to the complaints.

In 2002, SB 2082 (Bowen) would have required any person who advertises on the Internet to sell cigarettes in California, and who is subject to the provisions of the Jenkins Act, to conspicuously disclose that a purchaser who buys cigarettes shipped into California is responsible for paying the state excise tax and the state use tax and to show in the advertisement the amount of these taxes that would be due. This bill would have also required the person selling or transferring the cigarettes to provide to the Board a copy of the invoice for each shipment made into California. That bill failed to pass out of the Assembly Revenue and Taxation Committee.

In 2003, SB 1016 (Ch. 603, Bowen) added compliance with the Jenkins Act as a condition to allow a person to engage in a non-face-to-face sale of cigarettes to a person in California. That bill also requires the Board to provide information relative to a seller's failure or attempt to comply with the Jenkins Act to the Attorney General.

In 2005, Assembly Bill 1029 (J. Horton) would have amended Section 30101.7 of the Cigarette and Tobacco Products Tax Law to revise the conditions under which a person may engage in a non-face-to-face sale of cigarettes to a person in California. However, the June 1, 2005, version of that measure deleted those provisions.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the Attorney General and is intended to facilitate the collection of taxes on cigarettes and tobacco products sold to residents of California over the Internet or by mail order. The bill is also intended to protect public health of California residents and to prevent sales of cigarettes and tobacco products to minors over the Internet or by mail order.
2. **The May 25, 2006, amendments** provide that the cigarettes and tobacco products shipping or transporting prohibition does not apply to cigars and pipe tobacco. The amendments would also add to the STAKE Act specified prohibitions against the distribution of cigars and pipe tobacco through the mail, which are similar to the provisions contained in existing Section 22963 for tobacco products, which this bill would repeal. The STAKE Act provisions do not impact the Board.
3. **Suggested technical amendments.** For clarification purposes, the following amendments are suggested to proposed BPC Section 22963:
 - Add a definition for the terms “cigarettes,” “tobacco products,” “cigars,” “pipe tobacco,” “distributing,” “selling” and “person.”
 - Require a person engaged in the business of selling or distributing cigars or pipe tobacco or who causes to be shipped any cigars or pipe tobacco to any person in this state, other than in the cigar or pipe tobacco manufacturer's original container or wrapping, to plainly or visibly mark the container or wrapping with the term “cigar” or “pipe tobacco.”
 - Require any person selling or distributing cigars or pipe tobacco directly to a consumer in the state through the United States Postal Service or by any other public or private postal or package delivery service, including orders placed by mail, telephone, facsimile transmission, or the Internet, to comply with the payment of California taxes or labeling requirement provided in Revenue and Taxation Code Section 30101.7(d)(2)(A) and (B); and

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- Change “board” to “Board of Equalization.”

Board staff is available to work with the author’s office in drafting these clarifying amendments.

4. **How is this bill different from the existing non-face-to-face ban?** Under existing law, a seller may make a non-face-to-face sale of cigarettes to a California consumer if certain conditions are met. This bill, however, would make it unlawful to ship or transport cigarettes or tobacco products, not including cigars or pipe tobacco, to any California home or residence. If this measure were signed into law, cigarettes or tobacco products, not including cigars or pipe tobacco, could only be shipped or transported to a described person.
5. **This bill is similar to a New York statute.** This bill is patterned after a New York statute (Public Health Law Section 1399-II), which prohibits direct shipment and transportation of cigarettes to consumers. The New York statute, however, only applies to the shipment and transportation of cigarettes and not tobacco products.
6. **Additional efforts to curb direct cigarette shipments to consumers.** Attorney General Lockyer and Attorneys General from across the country, the federal Bureau of Alcohol, Tobacco, firearms and Explosives and the major credit card companies agreed to work together to prevent the processing of payments for illegal Internet cigarette sales. Among other things, actions taken by some of the credit card companies include adopting policies to prohibit the use of credit cards for the illegal sale of cigarettes over the Internet, and agreeing to investigate and take action against any Internet sellers identified by law enforcement as using their credit cards for illegal online cigarette sales.

In addition, the state of New York has also negotiated agreements with UPS, DHL, and FedEx under which those companies have agreed to stop transporting cigarettes directly to individual consumers nationwide. Philip Morris USA (PM USA) also reached an agreement with a coalition of 37 Attorneys General to reduce the supply to PM USA cigarettes to those engaged in illegal sales of cigarettes.

7. **The Jenkins Act.** The Jenkins Act requires any person that sells or transfers cigarettes for profit in interstate commerce and ships the cigarettes into a state that imposes a tax on cigarettes to file by the 10th of each calendar month a copy of the invoice for each and every shipment of cigarettes made during the previous calendar month in that state. Many consumers who shop on the Internet may not be aware of these provisions and think they are successfully avoiding the tax by purchasing cigarettes from out-of-state sellers over the Internet. The Board utilizes the information required to be provided by the Jenkins Act to bill consumers for the taxes due. Unfortunately, some cigarette retailers do not comply with the provisions of the Jenkins Act. Since the Jenkins Act is a federal statute, the Board requires the assistance of federal law enforcement agencies to enforce the provisions of the Jenkins Act. Also, the provisions of the Jenkins Act apply only to the sale of cigarettes, not tobacco products.
8. **Internet purchases.** As efforts increase in this state to stop the illegal sale of cigarettes and tobacco products to minors, they may find it more difficult to purchase such products from traditional locations such as liquor stores and gas station mini-marts. This may lead to minors turning to the Internet as a means of acquiring cigarettes or tobacco products since the retailer is not likely to verify the age of the

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purchaser. This can lead to additional tax avoidance since the Internet retailer is unlikely to collect the California taxes due and the minor purchasing cigarettes or tobacco products is unlikely to self-report the California taxes due.

COST ESTIMATE

The Board would incur costs to seize and destroy cigarettes and tobacco products that are in violation of the shipping and transportation ban or labeling requirement. A detailed cost estimate of this workload is pending.

As an enforcement tool for the administration and collection of the cigarette and tobacco products tax, the Board's administrative costs related to this bill would be offset with cigarette and tobacco products tax revenues, which are deposited into the General Fund, Breast Cancer Fund, the Cigarette and Tobacco Products Surtax Fund, and California Children and Families Trust Fund.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

Under current law, out-of-state vendors may ship cigarettes or tobacco products to California homes or residences provided the vendor has paid all taxes or notified the consumer of their responsibility to pay all taxes, is in compliance with the federal Jenkins Act, and has met age of purchaser verification requirements. This bill, patterned after legislation enacted by the state of New York, would prohibit shipping or transporting of cigarettes or tobacco products, except cigars and pipe tobacco, to California homes or residences. According to the New York Attorney General, the New York shipping ban has greatly assisted their ability to reduce the volume of Internet cigarette sales shipped to homes or residences.

We estimate that cigarette sales made by out-of-state Internet vendors directly to California consumers account for excise tax revenues of \$21.5 million.⁴ Our estimates of tobacco products Internet sales (such as cigars, snuff, and chewing tobacco) from out-of-state vendors to consumers are based on information provided to us by the Excise Taxes Section staff. The Excise Taxes Section has invoices and shipping information from out-of-state vendors to California consumers. We annualized the data and estimated the proportion of shipments that most likely would go to consumers where we had more detailed shipping information. We determined that 79 percent of excise tax revenues owed on out-of-state purchases was for cigarettes and 21 percent

⁴ Source: "Documentation of Board of Equalization 2003 Cigarette Tax Revenue Evasion Estimates," 2/25/03. Based on the results of a California Department of Health Services (DHS) survey, we estimated that about 2 percent of cigarettes were purchased out-of-state by California consumers over the Internet. Two percent of tax-paid distributions represented 24.7 million packs in fiscal year 2001-02. At a tax rate of \$0.87 per pack, excise tax revenue lost from Internet and mail order sales is \$21.5 million.

Updated data from a more recent DHS survey (*Tobacco Control Successes In California: A Focus on Young People, Results from the California Tobacco Surveys, 1990-2002*, October 2003) confirm the magnitude of the percentage of Internet purchases used to derive this estimate. Also, national data from the U.S. Census Bureau (*2002 Economic Census, Retail Trade, Subject Series*, October 2005) corroborate the magnitude of this percentage.

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was for tobacco products. These percentages could change if more detailed information becomes available.

Given cigarette excise tax revenues of \$21.5 million, this implies that excise taxes owed on out-of-state purchases of tobacco products by consumers is \$5.7 million. Of the \$5.7 million, we do not know how much of these sales are cigars or pipe tobacco. U.S. data indicate that cigars comprised about 44 percent of tobacco spending by consumers in 2004.⁵ There are no comparable data for pipe tobacco, but other U.S. per capita consumption data indicate that pipe tobacco sales are relatively small.⁶ Board staff believe that it is reasonable to assume that 44 percent of these out-of-state mail order and Internet sales to consumers are either cigar or pipe tobacco sales. This implies that the tobacco revenue gain under this bill would be 56 percent of \$5.7 million, or \$3.2 million.

Use tax revenues related to these Internet sales account for additional revenues of \$7.9 million for cigarettes and \$0.8 million for tobacco products. Excise and use tax revenues associated with Internet sales of cigarettes and tobacco products to consumers total \$33.3 million. The following two tables show details of these revenues by fund.

Cigarette Tax Revenues From Internet and Mail Order Sales to Consumers		
	Tax Rate or Price	Millions
Distributions (Millions of Packs)	n.a	24.7
Excise Taxes	\$0.87	\$21.5
General Fund	\$0.10	\$2.5
Breast Cancer	\$0.02	\$0.5
Proposition 99	\$0.25	\$6.2
Proposition 10	\$0.50	\$12.4
Sales and Use Taxes		
Average Retail Price Per Pack	\$4.00	
Retail Value of Cigarette Sales	n.a	\$99.0
State		
General Fund	5.00%	\$5.0
Fiscal Recovery Fund	0.25%	\$0.2
Local	2.00%	\$2.0
District	0.68%	\$0.7
Totals		
Total Excise and Sales Taxes		\$29.4
General Fund Excise and Sales Taxes a/	n.a.	\$7.4
a/ Included in above total.		
Totals may not sum due to rounding.		

⁵ Table 989, *Statistical Abstract of the United States: 2006*, U.S. Census Bureau.

⁶ *Tobacco Outlook*, U.S. Department of Agriculture, April 2006.

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Tobacco Product Revenues From Internet and Mail Order Sales to Consumers		
	Tax Rate or Factor	Millions
Excise Taxes	\$1.37	\$3.2
Proposition 99	\$0.87	\$2.0
Proposition 10	\$0.50	\$1.2
Sales and Use Taxes		
Wholesale Cost		\$6.8
Average Retail Markup, 35%	1.35	n.a.
Retail Value of Tobacco Sales	n.a	\$9.2
State		
General Fund	5.00%	\$0.5
Fiscal Recovery Fund	0.25%	\$0.0
Local	2.00%	\$0.2
District	0.68%	\$0.1
Total Excise and Sales Taxes		\$3.9
a/ Excise tax as a per pack equivalent rate.		
Totals may not sum due to rounding.		

Revenue Summary

The total potential combined excise tax and use tax revenue gains from this bill could be as high as \$33.3 million if all sellers comply with the new law. Details are shown in the table below. Exactly how much depends on the degree to which out-of-state Internet and mail order sellers of cigarettes and tobacco products comply with the new law. Another unknown factor is the extent to which users of these products will decide to quit rather than to purchase the same products in physical “bricks and mortar” California stores.

Cigarette and Tobacco Products Revenues From Internet and Mail Order Sales to Consumers		
	Tax Rate	Millions
Excise Taxes	n.a.	\$24.7
General Fund	n.a.	\$2.5
Breast Cancer	n.a.	\$0.5
Proposition 99	n.a.	\$8.2
Proposition 10	n.a.	\$13.5
Sales and Use Taxes		
Retail Value of Cigarette and Tobacco Sales		\$108.3
State		
General Fund	5.00%	\$5.4
Fiscal Recovery Fund	0.25%	\$0.3
Local	2.00%	\$2.2
District	0.68%	\$0.7
Totals		
Total Excise and Sales Taxes		\$33.3
General Fund Excise and Sales Taxes ^{a/}	n.a.	\$7.9
a/ Included in above total.		
Totals may not sum due to rounding.		

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